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International Transmission of Inflation.
Its Economics and Its Politics

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International Transmission of Inflation
Its Economics and Its Politics

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International Transmission of Inflation. Its Economics
and Its Politics

(abstract)

This paper discusses major conduits for the international transmission of inflation with special attention to the system of exchange rates, money and capital markets, and the terms of trade, and the mechanism of transmission between West, South and East.

Contemporary worldwide inflation reflects the economic contradictions not only within individual countries, but on the world scale as well. At present inflation cannot be combatted within a single country. With inflation internationalized, it is now too late for this. But at the same time, it is too early-as usual, for political reasons-for the launching of necessary measures coordinated on the global scale.

It is a characteristic feature of economic relations that they have grown increasingly internationalized. Economic ties, whether in production, investment, commerce, finance, or technology, have been transcending the boundaries of national economies to assume a global character, in a trend reflecting the general regularity of economic development.

An important role in the process of internationalization of economic relations is played by the world market. It may be viewed from many different angles, but here I am going to confine myself to discussing its two aspects - and only as they could be seen from one concrete standpoint in the past several years. The world market is, on the one hand, used by individual countries as a device to cushion their internal troubles, and on the other it provides a "transmission belt" for unfavorable economic processes developing on the world scale. This is also true of inflation, which affects all the countries in contemporary world (see Table 1 and 2). Inflation should be viewed in its broad sense. It reflects the economic contradictions not only within individual countries, but on the world scale as well. Furthermore, when economic contradictions increase - and they are not solved in proper time by adequate methods, what often occurs - then it results also in increasing political contradictions.

Because of numerous shortcomings of inflation, every country wants to get rid of it as soon as possible.

Table 1: The rate of inflation in selected countries in 1980s

Country	1980	1981	1982	1983	1984	<u>1984</u> 1979=100
<u>OECD</u>						
France	13.3	13.4	11.8	9.6	7.4	169.1
Germany, Federal Republic of	5.5	6.3	5.3	3.3	2.4	124.9
Great Britain	18.0	11.9	8.6	4.6	5.0	157.5
Italy	21.2	17.8	16.5	14.7	10.8	211.4
Japan	8.0	4.9	2.6	1.8	2.3	121.1
Sweden	13.7	12.1	8.6	8.9	8.0	162.8
USA	13.5	10.4	6.2	3.2	4.3	143.2
<u>CMEA^{a)}</u>						
Bulgaria	14	0	1	3	1	119.8
Czechoslovakia	2	1	4	1	1	109.3
Germany, Democratic Republic of	1	0	0	0	0	101.0
Hungary	9	5	7	7	8	141.5
Poland	9	21	101	20	15	365.8
Romania	2	2	17	5	8	138.0
Soviet Union	1	1	4	1	- 1	106.1
<u>Less Developed Countries</u>						
Argentina	100.8	104.5	164.8	343.8	626.7	17604
Chile	35.1	19.7	9.9	27.3	19.9	271.3
India	11.4	13.0	7.9	11.9	8.3	164.6
Korea, South	28.7	21.3	7.3	3.4	2.3	177.2
Nigeria	11.4	20.8	7.7	23.2	39.6	249.3
Singapore	8.5	8.3	3.9	1.2	2.6	126.8
Tunisia	10.0	8.9	13.7	8.9	8.4	160.8

a) In the CMEA countries it is used to round the consumer price index to entire digits. In the socialist countries - with the exceptions of Hungary, Poland, and Romania - the rate of price inflation is very low but it is necessary to emphasize that in centrally planned economies simultaneously exist repressed inflation and the shortages. On this subject see Kolodko and McMahon (1986).

Source: Data for OECD and Less Developed Countries from: International Financial Statistics, IMF, Washington, D.C., November 1985, for CMEA countries from "Rocznik Statystyczny 1985", ("Statistical Yearbook 1985"), GUS, Warszawa, 1985.

Table 2: Consumer price indexes in 1981-85 (1980=100)

	1981	1982	1983	1984	1985 ^{a)}
World	114.1	128.1	144.2	164.2	190.3
Industrial Countries	109.9	118.1	124.1	130.1	135.9
Developing Countries	127.8	164.1	228.9	336.1	533.0
Africa	119.7	134.8	159.6	191.6	209.9 ^{b)}
Asia	109.3	115.5	122.7	131.0	138.3
Europe ^{c)}	124.8	155.0	192.0	253.5	339.1
Middle East	116.4	133.3	153.2	178.1	199.9 ^{d)}
Western Hemisphere	159.6	276.6	601.5	1479.6	4187.0

a) July 1985

b) April 1985

c) In this group of countries IMF's data include European countries which are the members of IMF but which are not included in industrial countries. They are: Cyprus, Greece, Hungary, Malta, Portugal, Romania, Turkey, and Yugoslavia.

d) May 1985

Source: International Financial Statistics, IMF, Washington, D. C., November 1985.

Irrespective of a host of internal measures aimed at this goal, steps have been taken to arrange for the "export" of inflation. This should not be taken to mean that all processes going on in the field are consciously guided. On the contrary, they quite often are largely uncontrolled. By its nature, inflation is hardly "marketable." Is, then, the export of inflation possible?

First, let us try to answer the question of what the "export of inflation" means. On the surface, it appears that the tendency towards rise in the general level of prices is caused - in the final analysis - by the excess flow of effective demand over supply or by growing input costs. The problem of the export of inflation is thus reduced - in a simplified presentation - to the "export" of this surplus demand or/and to the passing of rising costs of input to external partners. It turns out that to some extent this is possible. But the whole complexity of the problem consists in the fact that such behavior is sought by many, as a result of which this peculiar export intermingles with import. The international transmission of inflation thus seems to be a more appropriate description of this feature of the contemporary world.

System of Exchange Rates

Of principal importance in the process of international transmission of inflation is the system of exchange rates as

shaped in the early 1970s. It was then that, under the influence of growing cracks in the exchange-rate system, the principle of fixed rates - adopted by leading Western nations under the Bretton Woods treaty of 1944 - was abandoned. A special role in this abandonment was played by West Germany which in 1971 opted unilaterally for a floating rate of the Deutsche mark to the dollar. This rate - and later the rates of other currencies to the US dollar - was to be shaped by market interplay. The breakdown of the system of fixed rates against the privileged US dollar was sealed by the latter's two devaluations against gold - by 7.89% in December 1971 and by further 10% in 1973. Since that time, the system of floating rates has reigned supreme - and, incidentally, it is this system that many economists perceive as a major factor behind the growing inflationary processes over the past fifteen years.¹

The exchange rate is the price of foreign bills as expressed in the domestic currency. It provides the information on how much a unit of foreign currency costs. For example, the acquisition of one pound sterling cost the US economy around \$2.2 at the end of 1980 and only \$1.2 at the end of 1984. Such changes bear enormous consequences for the pattern of real economic processes at the national and the world scale - and especially for inflation. In a clear interdependence, the stronger the currency of a country (which depends primarily on the strength and stability of its economy), the lower the inflation rate.

It should be stressed that, by the very nature of the system, the floating exchange rates may alter in any direction. But as things were developing recently - and, as usual, not without reason - there was a tangible decline in the exchange rates of the currencies of highly advanced capitalist countries against the US dollar. And as for the national currencies of developing nations, their rates to the world's strongest currency - that is, the dollar - were falling, sometimes at a breath-taking pace, although there were also some exceptions (see Table 3).

The importance of the exchange rate for inflationary processes is the greater, the higher the foreign trade's share in the given country's economy. And since this share has been growing in step with economic development and international division of labor, so has been (leaving aside the periods of recession) the importance of the prices of foreign currencies.

The growth of the prices of foreign currencies, or the fall of the exchange rate, results in higher cost of input, reflecting the increased cost of so-called foreign content which sometimes is substantial. In consequence, the costs of final output drawing on imported components increase, and so do the domestic prices. This alone may prove sufficient to set in motion a self-propelling, cumulative mechanism of cost-push inflation.² And to its already identified elements, new ones are added - the internal costs and prices grow, and so do the prices of exported goods as expressed in

Table 3: The exchange rate of selected currencies against US dollar in 1970-1984

Country	Currency	1970	1977	1978	1979	1980	1981	1982	1983	1984
		Value of National Currency per U.S. Dollar								
OECD										
France	Francs	5.52	4.71	4.18	4.02	4.52	5.75	6.73	8.35	9.60
German, Federal	Deutsche Marks	3.65	2.11	1.83	1.73	1.96	2.25	2.38	2.72	3.15
Great Britain	Pounds	0.42	0.52	0.49	0.45	0.42	0.52	0.62	0.69	0.86
Italy	Lires	623	827	830	804	930	1200	1370	1660	1936
Japan	Yens	357.6	240.0	194.6	239.7	203.0	219.9	235.0	232.2	251.1
CMEA										
Hungary	Forints	...	40.6	35.6	35.6	32.2	34.4	39.6	45.2	51.2
Poland	Zlotys	24.0	19.9	31.7	30.0	31.8	34.4	86.5	98.4	138.2
Romania	Leis	...	20.0	18.0	18.0	18.0	15.0	15.0	18.3	17.8
Less Developed										
Countries										
Brazil	Cruzeiros	4.95	16.1	20.9	42.5	65.5	127.8	252.7	984	3184
India	Rupees	7.60	8.21	8.19	7.91	7.93	9.10	9.63	10.49	72.45
Mexico	Pesos	12.5	22.7	22.7	22.8	23.3	26.2	96.5	143.8	192.6
Singapore	Singapore Dollars	3.08	2.34	2.16	2.16	2.09	2.05	2.11	2.13	2.18
Tunisia	Dinars	0.52	0.41	0.40	0.39	0.42	0.52	0.62	0.73	0.87

Source: International Financial Statistics, IMF, Washington, D. C., January 1974, and November 1985.
Data for Poland from National Bank of Poland.

units of the national currency - which may make it harder to place this output in foreign markets, leading in turn to a new devaluation of the currency so as to keep the profitability of exports and raise their competitiveness in foreign markets. The costs of imports are growing again, with all inflationary consequences for the dynamics of the general level of prices.

The purpose of devaluation, or the official lowering of the exchange rate of the currency, is to raise the competitiveness of exports through the reduction of prices expressed in those foreign currencies in respect to which the exchange rate is reduced. Sticking to the above mentioned example, this means that while in 1980 a £1,000 worth of British good cost around \$2,200 in the US market, four years later, other factors being equal, the Americans had to pay for it just slightly more than \$1,200. In such situation, the task of boosting exports to the US market is much easier. The purpose of this is to raise net export revenues with a view to balancing foreign payment. But the cost that has to be borne is the growth of the general level of domestic prices in the British market, as the costs of imports from the US grow accordingly. This mechanism played a not unimportant role in accelerating inflation in many highly developed countries at the beginning of the 1970s. A special case here is Great Britain where, following several devaluations of the pound sterling, the cumulative mechanism of costs, prices, and wages has been set in motion on a

large scale, resulting in nearly 25% rate of inflation in the mid-1970s.

But devaluation as a means of raising exports profitability is not always effective. It brings the expected results only when, as a reaction to its announcement, adequate changes occur in the size of exports (increase) and imports (decline, coming as a result of their being expensive). The desired scope of these changes is defined by Marshall-Lerner formula according to which the devaluation of the national currency contributes to an improvement in the balance of payments when the sum total of price elasticity of foreign demand for goods exported from a country and of price elasticity of domestic demand for imported goods is higher than unit. If this is not the case, we have a so-called perverse effect of devaluation which helps to worsen the balance of payments rather than improving it.³

This is a rare development in highly developed countries which are capable of defending against such consequences. But it is very frequent in developing nations. There, one devaluation may follow in the footsteps of another, with the inflationary price increase acting as oil poured on the flames. The devaluation winds up inflation which, in turn, necessitates a new devaluation, and the latter hardly contributes to an improvement in the balance-of-payments situation of backward countries.⁴ This is a major source of their chronic balance-of-payments

incapacitation and huge, steadily growing foreign debt. Needless to say, this is primarily the debt to leading Western countries and their largest commercial banks. There can be no doubt that the main direction of the export of inflation through the system of exchange rates is from the highly developed capitalist world to the Third World. The latter's economic position is still so weak as to prevent it from effectively countering this kind of the transmission of inflation.

The socialist countries, isolated from the influence of exchange-rate fluctuations in the capitalist world, are involved in this process in only a limited degree. Much depends here on the geographical structure of their foreign trade settled in convertible currencies. They may either benefit from these processes or lose on them. If, for example, exports are charged in US dollars, whose rate against currencies of other capitalist countries goes up, and if these dollars are used for import purchases in countries with declining rates of national currencies, then the same volume of export may buy more imports. The problem is, however, that the reverse is often the case.

So there are grounds to say that the international transmission of inflation, as seen from the viewpoint of the contemporary system of exchange rates, consists in keen competition within the group of highly developed capitalist countries,⁵ a sort of "one-goal game" against less developed countries, coupled with a great deal of isolation on the

part of the socialist countries. The latter stick in principle to the policy of relatively rigid exchange rates, both in respect to convertible currencies and within their economic grouping (see Table 3).

The system of floating rates can hardly be assessed as unequivocally negative. Its impact may be exerted in various directions - be it inflation or other economic processes. But the fact is that the crisis of the world system of exchange rates has played the principal role in making inflation international, introducing to it some added elements of uncertainty. The system of floating rates, while making international economic relations more flexible and permitting necessary processes of adaptation to the changing economic determinants in the world, at the same time exerts a destabilizing influence upon these relations. More than that, it permits various speculative measures which on such scale would have been impossible at the time of fixed rates of exchange. Because of the speculative game in the international foreign exchange market, the economic processes, inflation included, often depend not on the real economic processes in the sphere of production and international trade - but rather on disturbances in the system of international settlements, purposefully arranged with some gains in view.

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Money and Capital Market

Another major conduit for the international transmission of inflation is provided by the money and capital market. It, too, has become highly internationalized, assuming a worldwide dimension and leaving a deep imprint on inflation as a global phenomenon.⁶

The interest rate is of special importance here, and the leading role is again played by the United States. Not without the influence of monetarist concepts,⁷ this rate in the US money/capital market has run for the past years at an exceptionally high level. This is supposed to restrict demand for investment credit, which in turn should slow the growth-rate of overall domestic demand, thus contributing to the lowering of inflation in the US economy. And this indeed is the case. But, just as there are two sides to every coin, the record-high interest rate had a simultaneous effect of attracting foreign capitals into the US. This stimulated the demand for dollars, the exchange rate of which had been running at a high level. The consequent relative cheapness of goods in the US market - or, more accurately, the slower price growth - is a factor behind the reduction of the rate of inflation.

Also relatively cheap are the goods imported to the US - but at the same time, the goods exported by that country are correspondingly more expensive, which directly influences a higher rate of inflation in other countries.

This influence is the greater, the higher the share of imports from the US in total purchases of a given country.

Clear interconnections can be seen here among the level of the interest rate, the demand for dollars, the exchange rates, the costs of production, and the level and dynamics of domestic prices. Hence, the strong pressure from the remaining OECD and developing countries on the US for the reduction of its interest rate, since this would no doubt result in lower rate of the dollar and, consequently, in lower rate of inflation in other countries (but this rate would rise in the US). The launching of this process is inevitable, because the rate of the dollar - pushed up under President Reagan's economic policy - is overvalued, and as such cannot be held in the longer run.

An interest rate set at a very high level affects inflation in various ways. It contributes to a slowdown in domestic demand and to the export of inflation, but at the same time results in an increase in production costs which has inflationary effects not only in the United States. This is because in the worldwide money/capital market other Western countries are bound to follow their leader. And since the costs of credit - affecting costs of domestic output and prices - are higher accordingly, the consequences are borne virtually by the whole world. And finally, the excessive rate of inflation has the effect of slowing economic activity and the rate of growth, as well as affecting unemployment.⁸

In discussing the impact of world inflation upon the course of inflationary processes in developing nations, it is necessary to mention the importance of the pumping of dollars to the world circulation of money. By increasing the financial liquidity on the international scale, it contributes to strengthening the demand-pull inflation. And this is precisely that peculiar form of the "export" of surplus demand which, since that time, becomes the headache of others. But this direction of the inflation transmission leads not only to the Third World countries, which incidentally suffer an acute shortage of foreign exchange. This transfer takes place primarily within the group of highly developed capitalist countries, while the socialist economic system, for which an excess of dollars in circulation is hardly a problem, is excluded from it.

This brings us to the so-called external dollars, or the US dollars in circulation outside the United States. They consist of dollar reserves held by nearly all countries, so-called petrodollars held by oil exporters, and eurodollars circulating in Western Europe and other nations of highly developed economies. Their amount rose more than ten times in the past twenty years, exceeding an estimated \$1,000 billion in 1985. It turns out that the world monetary system is so designed that the US can finance its guns-and-butter spending at the expense of its major foreign allies, onto whom the inflation is largely passed.⁹

Contributing to this are also the big direct investments made by the US abroad which - through the nearly chronic deficit of the US balance of payments - result in added inflationary processes there. To a large extent, this deficit is covered by the additional issue of dollars which remain outside the US economy. Their growing supply often forces the central banks of leading capitalist countries to intervene in their foreign exchange markets, by buying dollars in order to prop up the exchange rates of the national currencies. As a result, additional money is created in domestic market, which stimulates demand-pull inflation. This is because the said creation often fails to be covered by a matching increase in domestic output. But on the other hand, this mechanism has anti-inflationary effects if the investments contribute to raising economic efficiency, which most often is indeed the case owing to the accompanying technological and organizational progress. The improvement in efficiency has always anti-inflationary effects. So this time again we can see a multi-faceted influence of one phenomenon upon another. But it seems - especially in view of the clear narrowing of the technology gap - that the resultant of these two lines of direct investments' impact and the functioning of external dollars has the effect of intensifying the inflationary processes outside the United States.

Terms of Trade

The international transmission of inflation is affected not only through changes in economic regulators, such as exchange rates or flows of money and capital. An important role is also played by the movement of goods, or more accurately the movement of their prices in international trade. In extreme cases, it is precisely this area where some economists locate the main causes of the present world inflation. In respect to this aspect of the international flow of inflation, the principal role is performed by movements in raw material prices, which went up noticeably in the past several years. Their growth was particularly steep after the oil price explosion enforced on the world by OPEC - largely, for political reasons related to Middle East developments.

The strong upward trend in prices collapsed in the early 1980s, when wholesale prices for both raw materials and food went down (see Table 4). Inflation, however, continued, although the said price trends were not without influence upon its weakening in many countries. Thus, there seem to be grounds for the claim that the operation in the past several years of the cost-related factors of inflation - even though these are not confined to raw material prices alone - has been weaker than in the 1970s.

Does that mean that the greatest beneficiaries of price movements in that period have been the countries exporting

Table 4: Price indexes of selected commodities at the world market in 1970-84

Commodity	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1984
1970 = 100											1980 =100
Coal	270	280	278	269	275	307	345	374	334	307	100.0
Bauxite	248	277	318	327	360	501	510	492	424	389	77.6
Copper	87	99	93	96	140	155	123	104	112	98	63.0
Petroleum	825	885	954	977	1305	2205	2500	2575	2253	2011	99.3
Plywood	179	180	165	218	365	396	337	325	327	328	82.9
Rubber	140	193	203	244	314	353	276	219	246	237	67.2
Superphosphate	482	215	230	231	337	419	379	330	316	309	73.7
Zinc	251	240	200	200	251	257	288	251	258	302	117.6
Cotton	207	218	238	221	244	245	243	200	224	261	106.7
Wool	204	209	227	234	276	315	319	305	287	295	93.6
Beef	102	122	116	164	221	213	195	184	188	176	82.4
Coffee	148	268	479	296	320	374	334	258	256	268	71.7
Sugar	507	291	245	297	355	438	414	373	362	318	72.6
Wheat	271	241	187	232	291	313	317	290	285	276	88.2

Source: International Financial Statistics, IMF, Washington, D. C., various issues.

raw materials, and that they have managed to pass inflation onto importers? By no means. Actually, anything traded in the contemporary world had been getting more expensive till the beginning of 1980s. So, the problem, as seen from the angle of the impact of these trends upon the final shape of input costs in individual countries, is confined to the question of which prices are increasing and at what rate. It turns out that after the inflationary shock caused by the discrete increase in the prices of crude oil (and later of many other raw materials), the importing countries have managed to adjust to the new level, while at the same time the prices of exported manufactured goods have gone up, often in no smaller degree.

So the upward movement in prices and costs has intensified on the world scale; and some have benefited while others have lost, more or less. This problem should be viewed through the prism of terms of trade, or the ratio of the dynamics of prices paid in import to the dynamics of prices earned in export. It is legitimate to assume that if the prices of goods exported by a given country grow more rapidly than the prices of goods it imports then such a country will be a net exporter of inflation¹⁰ - and vice versa.

This time, again, the world inflationary movement of prices has been as a rule less severe to the economies of the most advanced countries which simultaneously have launched processes of adaptation designed to reduce unit

consumption of imported raw materials, sometimes more than offsetting the increase in costs (which has been passed through the prices of exported goods to the buyers). But it remains a fact that the factor of floating rates of exchange has been joined by another one which strongly influences the internationalization of inflation - namely, the compensatory mechanism of upward trends in prices of raw materials and industrial goods, which is very difficult to bring under control, let alone eliminate.

Here, too, the directions of the international transmission of inflation seems to be very clear. Leaving aside some improvement in the mid-1970s, it turns out that in the long run the unfavorable pattern of price dynamics has been the fate of the Third World and socialist countries, or those segments of the world economy for which the export of raw materials and the import of highly processed goods are of very great importance. The defence against the influence of world inflation upon internal inflation should thus consist, among other measures, in adequate changes in the economic structure aimed at increasing the diversity of these countries' offer in the world markets, so as to avoid a situation when they are doomed to unfavorable trends in the terms of trade.

In trade among CMEA member countries,¹¹ the movements of prices for basic raw materials are clearly less volatile than in the world market as a whole. This is favored by the system of so-called rolling prices, set annually as the

average of world prices in the preceding five years. In this way, the upward trends in world market prices are spread in time and, to some extent, cushioned. But it is not possible to fully isolate the intra-CMEA trade from the pattern of world prices. The increase in raw material prices is transferred to the set of intra-CMEA prices - only with some delay and broader spread in time.

It may be noted that under the rolling prices system, the price level in trade among socialist countries may still be increasing at a time when the same prices are declining in the world market. This was the case with energy carriers in recent years, when the prices for Soviet oil, or Polish coal, were increasing within the CMEA despite their slight decline in hard-currency markets. But this is how socialist countries have to pay for the long-term upward trend in raw material (and other) prices in the world economy, the consequences of which they did not know before. And to avoid these consequences entirely is not possible.

Conclusions

Inflation in its international aspect should also be viewed as a process of adjustment of economic relations to the changing conditions. This is reflected in the shaping of a new type of economic interdependencies and a new pattern of international prices. Hence, the great importance attached by socialist and developing nations to

the creation of the new international economic order, which should also make it possible to reduce the scope of the international transmission of inflation, and to weaken the related economic - and, consequently, political - tensions.

However, this requires far reaching changes in the contemporary world. At present, as it follows from this part of the discussion, inflation cannot be combatted within a single country. With inflation internationalized, it is now too late for this. But at the same time, it is too early - as usual, for political reasons - for the launching of necessary measures coordinated on the global scale.

Any attempt at regional fight against inflation can bring only partial effects. And this fight often consists in attempts to shift the burden to other economic groupings. Instead of cooling down the world inflation, it may actually heat it up. As for supra-national organizations - especially the International Monetary Fund which, incidentally, does not cover many countries, including most socialist nations - their attention is focused on seeing to it that the member countries have their foreign payments balanced and to stimulate their economic growth. And this, as is known, may have the effect of fueling inflation, especially in less developed countries. Besides, it should be remembered that in International Monetary Fund, the position of individual countries is highly diversified. The organization caters in the first place to the interests of big international capital, and without approving consent of

the United States virtually nothing can be done. So the road that has to be passed before world inflationary processes are brought under more effective control than so far is very long. There should be no illusion that this can be a matter of near future.

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Notes

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1. See, for instance, Denizet (1977)
2. On this subject see Aukrust (1977), and Gylfason and Lindbeck (1982).
3. The so-called perverse effect of devaluation has been described by Robinson (1971).
4. On the inflation in less developed countries see, for example, Krause and Salant (1977), Thorp and Whitehead (1979), and Cline (1981).
5. With the US holding a special position, because of the role of the dollar as a reserve currency and because of its economic position in the world economy.
6. Following the acceleration of the rate of inflation and the intensity of international transmission of this

phenomenon many monographs dealing with global character of contemporary inflation have been published. See, for instance, Krause and Salant (1977), Lindberg and Maier (1984), Bruno and Sachs (1985), and Kolodko (1986). On the survey of theory of international transmission of inflation see Choi (1985).

7. On the monetary approach to worldwide inflation see Svoboda (1977). The author claims that "...the worldwide inflation will be generated (a) if monetary expansion domestic origin occurs simultaneously in most countries, (b) if it occurs in a very large country whose monetary expansion has a substantial effect on the world price level and whose reserves are large enough to sustain the resulting payments deficit, and (c) if the expanding country does not have to face a reserve constraint. The United States clearly fulfills the first part of condition (b) and condition (c), the latter under the dollar standard. In addition, the dollar standard also implies that (...) the impact of monetary expansion in the United States on the world money stock and, hence, world prices is greatly amplified." (p. 46).

8. This should be kept in mind, or otherwise the analysis of inflation separated from the accompanying economic developments, i.e. rate of growth, rate of unemployment, deficit of the budget, balance of payments, would be insufficient to understand the whole complexity of the problem. See Kolodko and McMahon (1986).

9. This aspect is also pointed out by some American economists. See, for instance, Galbraith (1975). Not surprisingly, this export of inflation on the world scale has given rise to strong anti-American sentiments; see Denizet (1977).

10. We mean a net exporter of inflation from this particular angle, after all there are much more opportunities for the transmission of inflation. See also Svoboda (1977), and Choi (1985).

11. The member countries of the Council of Mutual Economic Assistance (CMEA) are: Bulgaria, Cuba, Czechoslovakia, Germany, Democratic Republic of, Hungary, Mongolia, Poland, Romania, Soviet Union and Vietnam.

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